

Message Text

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ORIGIN TRSE-00

INFO OCT-01 ARA-06 ISO-00 EB-07 CIAE-00 INR-07 NSAE-00

RSC-01 /022 R

DRAFTED BY TREAS:CLOHMANN:WW

APPROVED BY EB:JKATZ

ARA:WROGERS

EB/IFD/ODF:REBENEDICK

ARA/LA/NC:FDEVINE

TREAS:JBUSHNELL

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P 311823Z DEC 74

FM SECSTATE WASHDC

TO AMEMBASSY CARACAS PRIORITY

C O N F I D E N T I A L STATE 283933

E.O. 11652: GDS

TAGS: EFIN, IDB, VE

SUBJECT: VENEZUELA TRUST FUND IN IDB

REF: A) CARACAS 12475, B) STATE 278451, C) CARACAS 12536

1. WE ARE ENCOURAGED BY REPORTS IN REFTELS A AND C OF GOV
INTEREST IN DISCUSSING PROPOSED TRUST FUND. THEREFORE WE
CONCUR IN YOUR RECOMMENDATION THAT EMB OFFICERS CALL ON

PEREZ GUERRERO TO OUTLINE OUR CONCERNS AS OUTLINED
REFTEL B AND IN SUPPLEMENTARY MATERIAL BELOW. EMB MAY
INFORM GOV THAT IF DISCUSSIONS OF OUR CONCERNS AT WASHING-
TON POLICY LEVEL ARE DESIRED, ASSISTANT SECRETARY ENDERS
OR ASSISTANT SECRETARY ROGERS AND TREASURY DEPUTY ASSISTANT
SECRETARY JOHN BUSHNELL WOULD BE PREPARED TO MEET WITH

PEREZ GUERRERO. IF LATTER PLANNING VISIT TO U.S. IN
JANUARY, WE COULD ARRANGE FOR A MEETING IN WASHINGTON
OR NEW YORK AT THAT TIME. ALTERNATIVELY BUSHNELL AND
APPROPRIATE STATE OFFICIAL WOULD BE PREPARED TO GO TO
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CARACAS IN WHICH CASE MIGHT WANT TO MEET ALSO WITH FINANCE

MINISTER HURTADO AND OFFICIALS VENEZUELAN INVESTMENT FUND. WOULD APPRECIATE EMB ASSESSMENT OF RELATIVE IMPORTANCE ABOVE MENTIONED OFFICIALS ON DECISIONS ON PROPOSED GOV FINANCING OF IDB.

2. FOR EMBASSY'S FURTHER INFORMATION AND UNDERSTANDING. OUR CONCERN WITH COMMERCIAL CHARACTER TRUST FUND PROPOSAL IS THAT THERE WILL BE PRESSURE FOR U.S. TO FOLLOW LEAD OF VENEZUELA IN SETTING RATIO BETWEEN NEAR COMMERCIAL "8" FUNDS AND CONCESSIONAL "FSO" FUNDING. FIGURES FOR NEW IDB REPLENISHMENT 1976-78 NOT YET FIRM PENDING DISCUSSIONS WITH CONGRESS AND LATIN AMERICANS. IN 1975 WE WILL BE REQUESTING CONGRESSIONAL AUTHORIZATION U.S. CONTRIBUTIONS TO NEW IDB REPLENISHMENT AND WE HAVE IN MIND RATIO OF ABOUT \$2 ORDINARY CAPITAL TO \$1 FSO. IN 1970 REPLENISHMENT U.S SUBSCRIBED \$824 MILLION TO ORDINARY CAPITAL (OC) AND PLEDGED \$1,000 MILLION TO SOFT-WINDOW FSO (OF WHICH \$500 MILLION HAS BEEN CONTRIBUTED THUS FAR). FSO ESSENTIALLY REPLACED U.S. SOCIAL PROGRESS TRUST FUND (SPTF) AS IDB SOURCE SOFT LOANS AFTER MOST SPTF FUNDS FULLY COMMITTED BY 1965. EVEN REDUCED U.S. CONTRIBUTION TO FSO WITH SHIFT IN EMPHASIS TO ORDINARY CAPITAL IN NEW REPLENISHMENT MAY BE JEOPARDIZED IF GOV CONTRIBUTION IS TO CONSIST ONLY OF CONVERSION OF PREVIOUS CONTRIBUTION AND THUS WILL NOT ACTUALLY PROVIDE NEW CONCESSIONARY RESOURCES.

3. REGARDING COMMENT IN REFTEL B PARA TWO ON FOLDING FUNDS INTO REGULAR ORDINARY CAPITAL OPERATIONS, WE WISH TO CLARIFY THAT SUGGESTION IS THAT GOV TRUST FUND BE ADMINISTERED ON SAME BASIS AS ORDINARY CAPITAL (I.E. INTEREST RATES AND LENDING POLICIES ESTABLISHED BY IDB) AND NOT REPEAT NOT THAT FUND ACTUALLY BECOME PART OF ORDINARY CAPITAL STOCK. LATTER WOULD REQUIRE CHANGES IN CHARTER WITH IMPLICATIONS INVOLVING AUTHORIZATION OF NEW SHARES. WE WELCOME GOV PROPOSAL TO ESTABLISH FUND RATHER THAN PURCHASE IDB BONDS WHICH COULD RESULT IN INCUMBERNENT OF ORDINARY CAPITAL STOCK.

4. GIVEN OUR UNDERSTANDING THAT IDB/GOV NEGOTIATIONS ARE ESSENTIALLY COMPLETED, POSSIBLE ALTERNATIVE TO CHANGES IN CONFIDENTIAL

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TRUST FUND SUGGESTED IN REFTEL B PARA TWO WOULD BE SIMULTANEOUS ANNOUNCEMENT OF TRUST FUND AND NEW SEPARATE SOFT LOAN FUND WHICH WE UNDERSTAND GOV CONSIDERING. IDEALLY GOV WOULD EXPRESS INTENT TO MAKE CONCESSIONARY TRANSFER IN GRANT OR LOW INTEREST LOAN FROM FUND TO IDB/FSO OR SEPARATE GOV TRUST FUND SOFTWINDOW SO AS TO IMPROVE CURRENTLY UNSATISFACTORY 5-1 HARD TO SOFT TERM MIX.

5. TRUST FUND PROVISIONS FOR EQUITY INVESTMENTS SEEN AS SECOND MAJOR PROBLEM AREA. PARTICULARLY OBJECTIONABLE IS POTENTIAL FOR ACQUIRING NON-LA SHARES BECAUSE SUCH PURCHASES WOULD PROVIDE NO NEW REAL RESOURCES FOR DEVELOPMENT BUT RATHER MIGHT SIMPLY GIVE STAMP OF IDB

RESPECTABILITY TO UNNECESSARY AND UNDESIRABLE

EXPROPRIATIONS. REGARDING PREPARATION OF IMPLEMENTING REGULATIONS WE HOPE GOV WILL COOPERATE WITH IDB TO ASSURE THAT TRUST FUND INVESTMENTS WILL CONSTITUTE ONLY SMALL EQUITY POSITIONS (AS IN IFC), WILL AVOID CONCENTRATION IN JUST A FEW COUNTRIES, WILL HELP TO MAXIMIZE NEW CAPITAL INFLOWS, AND WILL ENCOURAGE RATHER THE SUBSTITUTE FOR PRIVATE INVESTMENTS.

6. DEPENDING UPON THE OUTCOME OF YOUR EARLY TALKS IN CARACAS WE WOULD BE PREPARED TO MAKE DISCREET APPROACHES TO SEEK CONSTRUCTIVE COMMENTS FROM 3-4 OTHER IDB MEMBER COUNTRIES. U.S. DOES NOT WANT TO BE IN POSITION OF NOT GIVING FULL SUPPORT TO TRUST FUND BUT IN ORDER FOR US TO GIVE FULL SUPPORT TO VENEZUELAN INITIATIVE, WE FEEL THE ABOVE ISSUES MUST BE DISCUSSED AND RESOLVED. SISCO

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: MEETINGS, DEVELOPMENT BANKS, TRUST FUNDS, INVESTMENT LOANS
Control Number: n/a
Copy: SINGLE
Draft Date: 31 DEC 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: MorefiRH
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974STATE283933
Document Source: CORE
Document Unique ID: 00
Drafter: CLOHMANN:WW
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750001-0397
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t1974121/aaaaaarh.tel
Line Count: 138
Locator: TEXT ON-LINE, ON MICROFILM
Office: ORIGIN TRSE
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 75 CARACAS 12475, 75 STATE 278451, 75 CARACAS 12536
Review Action: RELEASED, APPROVED
Review Authority: MorefiRH
Review Comment: n/a
Review Content Flags:
Review Date: 15 JUL 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <15 JUL 2002 by kelleyw0>; APPROVED <30 DEC 2002 by MorefiRH>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: VENEZUELA TRUST FUND IN IDB
TAGS: EFIN, VE, US, IDB, (ROGERS, WILLIAM P), (ENDERS, THOMAS O), (BUSHNELL, JOHN), (PEREZ GUERRERO)
To: CARACAS
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005